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SUBJECT: SOUTHERN VIETNAM'S DEEPWATER PORT FIRST PHASE UP AND
RUNNING, BUT ROAD ACCESS STILL A PROBLEM

REF: 08 HCMC 757

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11. (SBU) Summary: After just five months in operation, the two terminals in Vietnam's southern deepwater port facility at Cai Mep have already begun to shift container traffic away from the overly-congested ports in Ho Chi Minh City. Even more importantly, because the new facilities can handle the type of large container ships that are almost exclusively used for trans-oceanic travel, shipping lines have begun offering direct service to/from Vietnam and both US coasts. Eight other terminals currently under construction at Cai Mep are expected to come online in the next few years, creating new capacity upwards of 8 million TEUs per year and the ability to handle the world's largest container vessels. In sharp contrast, little has been done to create the land infrastructure -- especially the access roads to the terminals -- that will enable businesses in Vietnam's Southern Key Economic Zone to take full advantage of the new port. Because Cai Mep port is rapidly developing into a major shipping hub for Vietnam, the U.S. Department of Energy is now evaluating Cai Mep as a potential partner for its Megaports program. End Summary.

Open for Business: Cai Mep Port Plans Become Reality

12. (SBU) In the Southern Key Economic Zone (SKEZ) surrounding HCMC that produces 40 percent of Vietnam's GDP, manufacturers complain bitterly that poor infrastructure handicaps their companies. Even when shipping demand weakened substantially in the face of the global economic slowdown during the first five months of 2009, there were still bottlenecks at Saigon Port in Ho Chi Minh City (HCMC). Rapid trade growth over the last decade has put considerable constraints on the system, especially because close to 90 percent of Vietnam's trade is transported by sea. Now the new Cai Mep port facility in Baria-Vung Tau (BRVT) has finally begun to relieve the pressure on HCMC's overburdened ports. According to BRVT Customs, so far the new terminals have processed about 35,000 twenty-foot equivalent units (TEUs) for exports.

13. (SBU) Vietnam's first deepwater port complex in Cai Mep in BRVT province is fifty miles from HCMC, close to the sea and, after extensive dredging, capable of servicing the world's

largest ships, known as "hyper post-Panamax vessels." In May 2009, two terminals in the Cai Mep complex opened: 1) the Tan Cang Cai Mep terminal, a joint venture between a Korean, Japanese and Taiwanese shipping lines and Saigon Newport, and 2) the SP-PSA terminal, a joint venture between Saigon Port and Singapore's PSA. Two other terminals are set to begin operations in the next year: 1) the Saigon International Terminals Vietnam (SITV), a joint venture between Saigon Trading Group and Hong Kong's Hutchinson; and 2) the Cai Mep International Terminal (CMIT), a joint venture between Saigon Port and APM-Maersk Terminals, targeting November 2010. Four other terminals plan to follow shortly, including the planned 2011 opening of the SSIT terminal, a joint-venture between Seattle-based SSA Marine and Saigon Port.

¶4. (SBU) More capacity is helpful, but crucially, the new terminals now enable shippers to schedule direct service routes between Vietnam and the United State and Europe. PSA operations manager Mr. Silas Png said that the direct routes save at least six days of transport time to the United States. For importers/exporters located in the southern key economic provinces, such as Bien Hoa, Dong Nai, and BRVT, the Cai Mep port also allows manufacturers to avoid the congestions of HCMC ports altogether. (Note: Although the shippers call the improved routes to the USA "direct," what they really mean is they are now able to save considerable costs by no longer having to move Vietnamese containers by smaller feeder vessels to Singapore or Hong Kong to load onto larger vessels. However, the new direct mega-vessels still make stops in Hong Kong, Japan or Taiwan ports to add on more cargo. In that sense they are more akin to airline "stop-over" flights.)

Lagging Infrastructure Threatens to Negate Progress

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¶5. (SBU) Despite steady progress on port construction, access roads from Highway 51 to the now-operational Tang Cang Cai Mep terminal are an unpaved three-mile stretch of craters and puddles that takes 35 minutes to drive. VPA's Mr. Lan said trucking companies complain about damage to their vehicles and cargo owners complain about damaged goods. Many have turned to ferries for transport to HCMC, which have added serious delays. Shippers held a formal meeting with the Transport Ministry on October 21, demanding that the GVN improve the port access roads, but little progress has been made.

¶6. (SBU) Without a viable road transport network, cost savings for manufacturers are reduced and delays continue to hamper terminal operations themselves. All of the terminal operations managers in Cai Mep complain about the snail's pace progress on infrastructure projects, including expansion of the main highway connecting Vung Tau to Ho Chi Minh City to six lanes. Another proposed expressway and rail line remain little more than phantom projects on GVN's transportation master plan. The lack of an efficient highway and freight rail system also contributes to the rising costs of inland transport. According to a World Bank analysis, exporters in Vietnam have to pay \$669 of domestic costs to ship a 20-foot container from Vietnam, in contrast to \$390 for Chinese exporters and \$416 in Singapore. Such total costs seriously erode the comparative advantages offered by Vietnam's low labor costs and other relative benefits.

¶7. (SBU) Although Vietnam's investment in infrastructure, at around 10% of GDP according to a Harvard policy paper, has actually been very high relative to other Asian economies, most

businesses still cite inadequate transport infrastructure as the single biggest impediment to doing business in Vietnam and to continued economic expansion in the southern key economic zone. Multiple levels of government sharing jurisdiction over financing and implementing infrastructure projects make the administration of transportation problematic. Financing for national roads is approved by the Ministry of Planning and Investment but the system is managed by the Ministry of Transport, and maintenance is the responsibility of Vietnam Roads Administration with funds channeled through the Ministry of Finance. For local roads, the complexity is even greater due to the involvement of provincial government departments.

Megaports

18. (SBU) The U.S. Department of Energy is in the process of negotiating an MOU with GVN to begin a "Megaports" initiative that could provide equipment, training and expertise to reduce the threat of illicit trafficking in nuclear and other radioactive materials. After touring several of the terminals at Cai Mep port, meeting with the BRVT People's Committee Vice Chairman Ho Van Nien and talking to local customs officials, the DoE delegation was encouraged that, road infrastructure concerns aside, Cai Mep is the port of the future and is the best place to initiate a possible Megaports project in Vietnam.

Comment:

19. (SBU) As much as the private sector likes to complain about infrastructure in Vietnam -- and BRVT's road system proves there is a lot to complain about -- the opening of two new deep-water terminals is a huge step toward making Vietnamese exports competitive for years to come. The terminals are state-of-the-art, managed by foreign partners with global expertise, and are situated near the industrial parks that produce large volumes of goods to be shipped internationally. Many other infrastructure development projects don't meet these criteria. Rather than targeting the development of roads that support these new ports and improve overall system capacity, GVN

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plans seem intent on spreading money thinly throughout Vietnam, often to the benefit of local state-owned enterprises that win project bids. Vietnam's private sector would be far better served by a fully-functional Cai Mep port complex. End comment.

10. (U) This cable was coordinated with Embassy Hanoi.
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